



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY TO THE PLANNING AND DEVELOPMENT COMMITTEE 2009

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IN SUPPORT OF RAISED BILL No. 6591 AN ACT CONCERNING CONNECTICUT STATE SINGLE AUDIT REVISIONS

Senator Coleman, Representative Sharkey, and distinguished members of the Planning and Development Committee: I am Robert Dakers of the Office of Policy and Management. I thank you for this opportunity to testify in support of Raised Bill No. 6591, "An Act Concerning Connecticut State Single Audit Revisions".

State agencies provide financial assistance to numerous entities, including not-for-profit agencies, cities and towns and other types of local governments (such as fire districts or regional school districts) and are responsible for ensuring that these grantees make proper use of state funding. The State Single Audit Act (SSA) provisions of §4-230 to §4-236 of the Connecticut General Statutes, were enacted to provide for one uniform audit by an independent public accountant of all state grants a particular grantee receives, rather than requiring each state agency to perform its own audit. The Office of Policy and Management (OPM) is the agency responsible for administering the SSA, the provisions of which closely mirror similar legislation that the federal government administers with respect to financial assistance awards.

There have been several significant changes to the Federal Single Audit Act that appear to have made the federal legislation more effective. The provisions of Raised Bill No. 6591 will make similar changes to the SSA. In developing these proposed revisions to the SSA, OPM consulted with state agencies and independent audit firms and conducted a comprehensive analysis of the key provisions of current state and federal law. We believe, based upon this analysis, our experience as the cognizant agency for most of the entities that are subject to the SSA and from our discussions with various stakeholder groups, that the proposed revisions will ensure the continued effectiveness of the SSA and make it more cost-effective.

The proposed revisions include:

1. **Increase in Expenditure Threshold for Triggering a State Single Audit.** Current law requires completion of a State Single Audit for non-profit, municipal and other covered entities that have expenditures of \$100,000 or more in state financial assistance during the grant recipient's fiscal year. We are proposing to raise to \$300,000 in expenditures that amount that triggers a State Single Audit.

The current \$100,000 expenditure threshold has not changed since 1998. In our cost-benefit analysis, we determined that a \$300,000 threshold would be more appropriate and would reduce the audit burden on the part of certain smaller sized entities. The federal government has changed its threshold for a federal single audit from \$300,000 to \$500,000.

2. **Method For Determining Which State Grants Must Be Audited.** Generally, in conducting a State Single Audit, not every grant that an entity expends in its fiscal year is audited. Only

grants considered "major" are required to be audited. A "Major" state grant is currently defined as \$100,000 or over. Grants of a smaller amount may be audited as necessary to comply with the current requirement that 50 percent of the total in State grants expended be audited. The proposed change would mirror the approach used by the federal government, requiring the use of a risk-based approach, as opposed to a strict dollar amount, in determining which state grants are major and thus, subject to being audited.

The risk-base approach does take into account the dollar size of the program but also uses other factors for determining a major grant including, but not limited to, the auditor's current and prior experience with the grant, the level of oversight by the grantor state agency and the inherent risk associated with the grant (i.e. a new grant program is normally considered more "at risk"). Another important consideration would include whether grant noncompliance was observed if the grant program was audited in the past. The requirement of auditing at least 50 percent of the total State grant amounts expended would not be changed under this proposal.

The federal government provides a comprehensive approach that auditors must follow in determining major grants and a very similar approach would be provided in the State Single Audit Compliance Supplement for the auditors to follow in complying with the State's risk-based approach.

3. **Designation of Exempt Programs.** The SSA currently delineates exempt programs. The state grantor agency and OPM previously determined these programs as having unique characteristics that warrant an audit outside of the SSA. Raised Bill No. 6591 would require the Secretary of OPM to designate exempt programs after consultation with state grantor agencies and the Auditors of Public Accounts. OPM would identify exempt programs in the State Single Audit Compliance Supplement, which is the publication normally used by auditors when conducting audits under the SSA.
4. **Extension Requests for Submitting A State Single Audit.** Currently, extension requests for additional time to submit a State Single Audit Report must be signed by both the grantee organization's chief executive officer and its auditor. The proposed change in this bill would provide procedural clarification by explicitly allowing for receipt by a cognizant state agency of additional information, from either a grantee or its auditor. In addition, before determining whether or not to grant an extension request, the bill's provisions would allow (but not require) a meeting between a cognizant agency, a grantee or its auditor.

We believe that the proposals in Raised Bill No. 6591 will ensure the continued effectiveness of State Single Audits and will reduce certain audit burden on smaller sized entities without sacrificing accountability for grant compliance. A number of the proposed changes have been in use by the federal government over a number of years and by all measurements, have been effective. The move toward more uniformity between the federal and SSA will also have the added benefit of creating a better understanding on the part of auditors of the requirements of state law due to the closer similarity of the two acts.

We believe there is an inadvertent drafting error in line 137 of the bill, with respect to the brackets surrounding the word "three". That line should indicate a change from "one" hundred thousand dollars to "three" hundred thousand dollars. As a result, line 137 should read as follows: "[one] three hundred thousand dollars in any fiscal year of such nonstate."

We respectfully request that the Planning and Development Committee issue a joint favorable substitute report with respect to Raised Bill No. 6591, reflecting the correction to line 137.